

Message Text

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TAGS: EFIN, KS

SUBJECT: LARGE INCREASES PROPOSED FOR DEFENSE EXPENDITURES

IN 1976 DUGDET AND 1975 SUPPLEMENTAL BUDGET

BILLS (CERP 0200)

REF: SEOUL 7332

SUMMARY: BILLS FOR 1975 SUPPLEMENTAL BUDGET AND 1976 BUDGET NOW BEFORE NATIONAL ASSEMBLY PROVIDE FOR 56 PERCENT INCREASE IN DEFENSE EXPENDITURE IN 1975 OVER 1974, AND ANOTHER 52 PERCENT INCREASE IN 1976. CAPITAL EXPENDITURES IN 1976 WILL BE CHIEF VICTIM, INCREASING ONLY 7 PERCENT, OR LESS THAN 15 PERCENT ASSUMED RATE OF INFLATION. BILLS EXPECTED TO BE APPROVED WITHOUT MUCH CHANGE. CONSENSUS OF PRESS AND ASSEMBLYMEN DOES NOT QUESTION MAJOR EXPANSION OF DEFENSE EXPENDITURE AND CONSEQUENT INCREASED TAX BURDEN BUT SOME DISCUSSION IS EMERGING OVER HOW TO PROTECT LOW INCOME WORKERS AGAINST INCREASED TAXES DUE TO INFLATION-CAUSED PUSH INTO HIGHER TAX BRACKETS.

END SUMMARY

1. BILLS FOR 1975 SUPPLEMENTAL BUDGET AND 1976 BUDGET HAVE

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BEEN TABLED IN NATIONAL ASSEMBLY. MAGNITUDES, GIVEN BELOW,

ARE CLOSE TO THOSE PROJECTED IN REFTEL. REVISED 1975 BUDGET WITH SUPPLEMENTAL PROVIDES SAME TOTAL REVENUE AND EXPENDITURE AS PROJECTED IN REFTEL. HOWEVER, "OTHER CURRENT" EXPENDITURE WAS REDUCED BY 11 BILLION WON, WHILE CAPITAL EXPENDITURE WAS INCREASED 10 BILLION AND DEFENSE EXPENDITURE 1 BILLION. ASSEMBLY VOTE ON SUPPLEMENTAL IS DUE BY OCTOBER 20. FOR 1976 BUDGET, 8 BILLION WON WAS CUT FROM BOTH REVENUE AND EXPENDITURE PREVIOUSLY PROJECTED. CAPITAL EXPENDITURE WAS CUT BY 11 BILLION WON AND "OTHER CURRENT" EXPENDITURE INCREASED BY 3 BILLION, WITH DEFENSE EXPENDITURE SAME AS REPORTED REFTEL EXCEPT FOR ROUNDING. BUDGET FOR 1976 DUE FOR VOTE BY EARLY DECEMBER.

2. SUMMARY OF GENERAL BUDGET BILLS IN BILLION WON:

	REVISED 1975	PERCENT# INCREASE	DRAFT 1976	PERCENT INCREASE
REVENUE	1557	54	2,044	31
TAXES	1355	48	1,817	34
OTHER DOMESTIC	80	48	70	-12
FOREIGN LOANS	123	208	157	28
EXPENDITURE	1587	62	2,044	29
DEFENSE	463	56	705	52
OTHER CURRENT	614	46	796	30
CAPITAL	510	97	543	7

PROPOSED 1975 TOTAL, INCLUDING SUPPLEMENTAL, OVER 1974 FINAL.

3. IF BILLS ARE APPROVED AS SUBMITTED, DEFENSE EXPENDITURE (EXCLUDING FMS SERVICING) WILL RISE FROM 29.2 PERCENT OF GENERAL BUDGET EXPENDITURE IN 1975 TO 34.5 PERCENT IN 1976. DEFENSE BURDEN AS PERCENT OF ESTIMATED GNP WILL RISE FROM 4.4 PERCENT IN 1974 TO 5.2 PERCENT IN 1975 AND 6.4 PERCENT IN 1976.

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4. IN DISCUSSION TO DATE SOME ASSEMBLYMEN AND NEWSPAPERS HAVE ADVOCATED RAISING THE CUTOFF POINT FOR TAX-FREE PERSONAL INCOME FROM SALARIES AND WAGES TO COMPENSATE FOR INFLATION. GOVERNMENT HAS REJECTED THESE DEMANDS ON GROUNDS THAT ALL REVENUE NEEDED TO BALANCE BUDGET. HOWEVER, IN APPARENT RESPONSE TO DISCUSSION, GOVERNMENT HAS BEEN REPORTED CONSIDERING PRICE CONTROLS ON MANUFACTURED GOODS, TO CUSHION IMPACT OF INFLATION, AS WELL AS LIMITATIONS ON TAX DEDUCTIBLE

ALLOWANCES AND EXPENSE ACCOUNTS FOR COMPANY OFFICIALS.
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